

Message Text

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ACTION NEA-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03

NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03 SS-20

USIA-15 AID-20 COME-00 EB-11 FRB-02 TRSE-00 XMB-07

OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01 STR-08 MC-02

DRC-01 /163 W

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FM AMEMBASSY TEHRAN

TO SECSTATE WASHDC 4978

C O N F I D E N T I A L TEHRAN 0067

E.O. 11652: GDS

TAGS: ECON IR

SUBJ: GOI BUDGET DEBATE AND AMENDMENTS

REF: TEHRAN 8425

1. SUMMARY: BUDGET PASSED BY MAJLIS ON JAN. 2. AMENDMENTS INTRODUCED INCLUDE PROVISIONS FOR CASH PURCHASES OF ARMS IMPORTS, FOREIGN DEBT PREPAYMENT, INCREASED DEFENSE SPENDING, AND AUTHORIZATION TO INVEST FOREIGN EXCHANGE EARNINGS ABROAD. WHILE NEXT YEAR'S DEFICIT IS EXPECTED TO BE REDUCED, INFLATION WILL REMAIN A PROBLEM. HIGH LEVEL GOI REVIEW OF BEST WAYS OF SPENDING SHARPLY INCREASED OIL REVENUES IS UNDERWAY. END SUMMARY.

2. DESULTORY DEBATE IN MAJLIS (LOWER HOUSE OF PARLIAMENT) ON 1352 (MARCH 21, 1973 - MARCH 20, 1974) BUDGET REVISIONS AND PROPOSALS FOR IRANIAN YEAR 1353 ENDED JANUARY 2 (REF A). BUDRZT BILL NOW GOES TO SENATE WHERE PASSAGE IS EXPECTED IN ABOUT ONE WEEK.

3. ON FINAL DAY OF DEBATE 11 AMENDMENTS TO 1353 BUDGET WERE INTRODUCED INCLUDING PROVISION TO PAY CASH FOR ARMS PURCHASES
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ABROAD RATHER THAN DEPENDING ON CREDITS FOR SOME DEFENSE EQUIPMENT

IMPORTS, USE OF RISING FOREIGN EXCHANGE EARNINGS FROM OIL EXPORTS TO PREPAY SOME FOREIGN DEBTS, AUTHORIZATION TO INVEST SURPLUS FOREIGN EXCHANGE EARNINGS OVERSEAS, INCREASED DEFENSE SPENDING, INCLUDING INCREASES IN MILITARY SALARIES AND PENSIONS, ETC. EMBASSY IS ATTEMPTING TO OBTAIN COPIES OF AMENDMENTS AND WILL PREPARE REVISED BUDGET TABLES AS SOON AS DATA AVAILABLE.

4. ACCORDING TO BACKGROUNDER ON FRONT PAGE OF SEMI-OFFICIAL KAYHAN INTERNATIONAL UNDOUBTEDLY BASED ON OFFICIAL SOURCES, GOI PLANS TO UTILIZE INCREASED OIL REVENUES AND FOREGO RLS. 46 BILLION (\$681 MILLION) OF BUDGETED DOMESTIC BORROWING IN 1353. SAME STORY CITES "VERY TENTATIVE" FIGURE OF \$500 MILLION FOR FOREIGN LOANS TO BE REPAYED EARLY. NO ATTENTION, HOWEVER, IS MADE OF WHETHER ORIGINALLY BUDGETED FOREIGN BORROWING WILL BE REDUCED. INVESTMENTS ABROAD PURPORTEDLY WOULD BE CONCENTRATED IN PETROCHEMICALS, OIL REFINERIES, AND OTHER INDUSTRIES RELATED TO USE OF IRANIAN PETROLEUM. STORY NOTES THAT "HIGH LEVEL" REVIEW IS UNDERWAY IN MINISTRIES OF ECONOMY AND FINANCE, CENTRAL BANK, AND PLAN AND BUDGET ORGANIZATION STUDYING BEST WAYS OF USING EXPECTED 1353 \$14 BILLION IN OIL REVENUES. A PLAN TO STOCKPILE ESSENTIAL RAW MATERIALS AND SEMI-PROCESSED COMMODITIES REPORTEDLY WILL BE WORKED OUT.

5. IN HIS SPEECH TO MAJLIS WINDING UP BUDGET DEBATE, PRIME MINISTER HOVEYDA POINTED OUT BUDGET HAD BEEN DRAFTED BEFORE GOI WAS AWARE OF INCREASES IN OIL REVENUES AND THAT NEW PLANS AND POLICIES WOULD HAVE TO BE WORKED OUT. WHILE HE CLAIMED GOI HAD HALTED INFLATIONARY SPIRAL, HOVEYDA SAID HE STILL WAS NOT SATISFIED AND THAT ANTI-INFLATIONARY MEASURES WOULD CONTINUE.

6. COMMENT: WHILE MINISTERIAL-LEVEL PROPOSALS TO EITHER HOUSE OF PARLIAMENT ARE VIRTUALLY CERTAIN OF PASSAGE WITH LITTLE OR NO MODIFICATION, SYSTEM DOES PROHIBIT GOVERNMENT FROM SPENDING ABOVE LEVELS SANCTIONED BY PARLIAMENT. APPEARS CERTAIN THAT 1353 SPENDING LEVELS WILL BE SUBSTANTIALLY INCREASED. REPORTED DECISION TO FOREGO \$681 MILLION IN DOMESTIC BORROWING IS EQUAL TO AMOUNT OF NET BORROWING IN 1353 BUDGET PROPOSALS. HOWEVER, \$538 MILLION STILL REMAINS IN BUDGETED DOMESTIC BORROWING TO REPAY OLD LOANS FROM BANKING SYSTEM. IF DOMESTIC BORROWING IS REDUCED AS REPORTED AND FOREIGN BORROWING REMAINS AT BUDGETED LEVEL, 1353 DEFICIT WOULD BE REDUCED BY MORE

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THAN ONE-QUARTER TO ABOUT \$1.8 BILLION, BUT THIS WOULD NOT APPEAR A SUFFICIENTLY STRONG MEASURE TO OFFSET INFLATIONARY EFFECTS OF INCREASED SPENDING. IN EMBASSY'S VIEW, RISING PRICES WILL REMAIN ONE OF GOI'S TOUGHEST PROBLEMS DURING 1974.

7. REPORTED \$500 MILLION BEING CONSIDERED IN PREPAYMENT OF FOREIGN LOANS AMOUNTS TO ONLY ABOUT 15 PERCENT OF OUTSTANDING FOREIGN DEBT WHICH ESTIMATED AT ABOUT \$3.3 BILLION IN MARCH, 1973. PREDICTED

FOREIGN EXCHANGE EARNINGS OF \$14 BILLION FROM OIL EXPORTS IN 1353, HOWEVER, WHICH AMOUNT TO ABOUT 61 PERCENT OF 1973 CURRENT PRICES GNP, WOULD EASILY PERMIT PREPAYMENT OF ALL FOREIGN DEBTS, SHOULD GOI SO DESIRE.

8. IN PAST IRAN'S AMBITIOUS ECONOMIC DEVELOPMENT EFFORT ALWAYS HAS BEEN ABLE TO ABSORB INCREASING OIL REVENUES, BUT RECENT INCREASES CLEARLY ARE MUCH LARGER THAN EVEN BOOMING IRANIAN ECONOMY CAN UTILIZE EFFECTIVELY. IRAN SEEMS CERTAIN TO BECOME SUBSTANTIAL CAPITAL EXPORTER OVER NEXT FEW YEARS.
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